

**Wexford-Missaukee
Intermediate School District
Cadillac, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Wexford-Missaukee Intermediate School District

Cadillac, Michigan

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June 30, 2006

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Wexford-Missaukee Intermediate School District

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Wexford-Missaukee Intermediate School District
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wexford-Missaukee Intermediate School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Wexford-Missaukee Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wexford-Missaukee Intermediate School District as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2006 on our consideration of Wexford-Missaukee Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wexford-Missaukee Intermediate School District's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 19, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

This section of the Wexford-Missaukee Intermediate School District's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2006.

USING THIS ANNUAL REPORT

The annual report consists of three main parts:

1) *Management's Discussion and Analysis*

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in *Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June, 1999. The Management's Discussion and Analysis represents management's review of the District's financial performance during the fiscal year ended June 30, 2006 and is a requirement of GASB 34. This discussion and analysis is intended to be read in conjunction with the District's financial statements.

2) *Basic financial statements*

The basic financial statements include two kinds of statements that present different views of the District.

- The Statement of Net Assets and Statement of Activities

The District-wide statements report information about the district as a whole and are reported as governmental activities.

The two District-wide statements report the District's net assets and how they have changed. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the district consideration of non-financial factors, such as changes in the property tax base, physical condition of school buildings and political conditions at the state level should also be taken into account.

Business-type activities as interpreted by the Michigan Department of Education do not occur in this District.

- Fund Financial Statements

The fund financial statements provide more detailed information about the District's major funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending for a particular purpose. Some funds are required by State law and others the District's Board of Education establishes to control and manage money for particular purposes.

Governmental Funds: The District's basic services are included in governmental funds, which focus on how money flows in and out and the balances left at year-end that are available for spending.

MAJOR FUNDS for purpose of these statements are the:

- General Fund - including the:
 - General Education Activity
 - ASAP-PIE Activity
 - Technology Activity
 - REMC II Repair Center Activity
- Special Education Fund
- Vocational Education Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

All other funds are presented in one combined column as **NONMAJOR GOVERNMENTAL FUNDS**. These would be:

- General Education Capital Projects
- Special Education Capital Projects Fund
- Vocational Education Capital Projects Fund
- Durant Capital Projects

Fiduciary Funds: The District is the fiduciary, or trustee, for various student group activities or trust beneficiaries. The District is responsible for ensuring the assets reported in these funds are used for their intended purposes. These activities are excluded from the District's government-wide financial statements because the funds cannot be used to finance District operations. All of the District's fiduciary activities are reported in the Statement of Fiduciary Net Assets.

The financial statements also include Notes to the Financial Statements, which explains some of the information in the statements as well as provides additional data.

3) *Required supplementary information*

The financial statements are followed by a section of required supplementary information that further explains and supports the financial statements by providing a comparison of the District's budget for the year.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

Net Assets

The Statement of Net Assets provides a perspective of the District as a whole and may serve over time as a useful indicator of a district's financial position. In Figure A-1 a comparative analysis of fiscal year 2006 is made to fiscal year 2005.

Figure A-1
Condensed Statement of Net Assets
as of June 30, 2006

	Governmental Activities	
	2006	2005
Assets		
Current and other assets	\$12,691,331	\$13,345,295
Capital Assets	10,224,294	10,626,571
Total Assets	22,915,625	23,971,866
Liabilities		
Current Liabilities	1,489,898	3,090,260
Long-Term Liabilities	86,949	86,035
Total Liabilities	1,576,847	3,176,295
Net Assets		
Invested in capital assets	10,224,294	10,626,571
Unrestricted	11,114,484	10,169,000
Total Net Assets	\$21,338,778	\$20,795,571

Wexford-Missaukee Intermediate School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

In this Condensed Statement of Net Assets, assets exceed liabilities by \$21.3 million and the District is able to report positive balances in both categories of net assets. The \$11.1 million in unrestricted net assets represents the accumulated results of all past years' operations. It means that if all assets were liquidated and all bills were paid off today, including all noncapital liabilities (compensated absences, for example), there would be \$11.1 million remaining. The operating results of the District will have a significant impact on the change in unrestricted net assets from year to year.

Changes in Net Assets

Similar to the Statement of Net Assets, the Statement of Activities reports on the District as a whole. A summary of the District-wide results of operations for the year ended June 30, 2006 is found in Figure A-2, Changes in Net Assets from Operations, along with a comparison to year ended June 30, 2005.

The cost of the District's governmental activities this year was \$16.6 million. Certain activities were partially funded by those who benefited from the programs (\$1.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3.6 million). The remaining portion of the governmental activities was paid with \$9.3 million in taxes, \$2.7 million in State Aid, and \$.48 million of other revenues, such as interest and general entitlements.

The District experienced an increase in net assets of \$.54 million in the current year.

Figure A-2
Change in Net Assets from Operations
Year Ended June 30, 2006

	Governmental Activities	
	2006	2005
Revenues		
Program Revenues		
Charges for Service	\$1,111,319	\$1,009,255
Operating/Capital Grants and Contributions	3,558,855	2,933,685
General Revenues		
Property Taxes	9,294,444	8,594,168
State School Aid-unrestricted	2,699,356	2,643,978
Other	484,985	224,651
Total Revenues	17,148,959	15,405,737
Functions/Program Expenses		
Instruction	4,935,992	4,272,059
Supporting services	8,520,029	7,994,303
Community services	36,970	43,464
Payments to other districts	2,552,433	3,712,498
Unallocated depreciation	560,328	715,354
Total Expenses	16,605,752	16,737,678
Increase(Decrease) in Net Assets	\$543,207	\$(1,331,941)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

In Figure A-3, the cost of four of the School District's functions and depreciation as well as each function's net cost (total cost less revenues generated by the activities) is presented. A comparison shows while Total Cost of Services went down .8% from 2005 to 2006, the Net Cost of Services (cost to taxpayers) went down 6.7%. Taxpayers were paying 67.2% of the District costs in 2005 and 77.9% in 2006.

Figure A-3
Net Cost of Governmental Activities
Year Ended June 30, 2006

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Governmental Activities				
Instruction	\$4,935,992	\$4,272,059	\$3,161,765	\$3,331,920
Support services	8,520,029	7,994,304	6,343,833	5,760,466
Community services	36,970	43,464	-	-
Payments to other districts	2,552,433	3,712,498	1,869,652	2,986,998
Unallocated Depreciation	560,328	715,354	560,328	715,354
Total Governmental Activities	\$16,605,752	\$16,737,679	\$11,935,578	\$12,794,738

BALANCES & TRANSACTIONS OF INDIVIDUAL FUNDS

As the District completed the year, its governmental funds reported a *combined* fund balance of \$11,462,278. This reflects an increase of \$832,412 from 2005's Fund Balance of \$10,629,866.

BUDGETARY ANALYSIS

The District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year. State law also requires the budget be amended to ensure expenditures do not exceed appropriations. Figure A-4 indicates the original budget adopted in June 2006 and the final budget adopted in June 2006 as well as the variance between the actual and final budgets.

Figure A-4
Budgetary Comparison Schedule
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance from Final Budget
<u>Revenues and Other Financing Sources</u>				
General Education Fund	\$1,412,457	\$1,673,624	\$1,680,394	\$6,770
Special Education Fund	9,168,082	9,060,387	10,001,933	941,546
Vocational Education Fund	5,312,786	5,262,300	5,391,273	128,973
<u>Expenditures and Other Financing Uses</u>				
General Education Fund	1,519,870	1,973,646	1,941,658	31,988
Special Education Fund	10,178,180	9,893,758	9,758,137	135,621
Vocational Education Fund	4,930,870	4,845,840	4,722,985	122,855

Wexford-Missaukee Intermediate School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

- Four budget amendments were made during the fiscal year.
- Due to re-evaluation of Special Education Maintenance of Effort an additional \$565,000 of expenses were shifted to the Federal Flow Through Grant increasing the amount of Federal revenue requested.
- Investment rates continued to climb throughout the fiscal year allowing the opportunity to generate \$384,725 of interest for the year. This is \$148,225 more than budgeted and an increase of \$235,140 from 2004-2005.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, as indicated in Figure A-5, the District had 15.9 million invested in a broad range of capital assets, including buildings, furniture and equipment, vehicles, and land.

Figure A-5
Capital Assets
Year Ended June 30, 2006

	Balance June 30, 2006	Balance June 30, 2005
Land	\$ 76,640	\$ 76,640
Buildings & Additions	13,013,669	12,987,115
Equipment & Furniture	2,567,853	2,480,414
Vehicles	233,637	230,147
Total Capital Assets	\$15,891,799	\$15,774,316

Debt

The District has no debt in the form of bonds, loans or notes. The District obligations for compensated absences can be found in the Notes to the Financial Statements on page 17.

KNOWN FACTS, DECISIONS, OR CONDITIONS AFFECTING THE FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances:

- The District completed year two of a three-year contractual agreement with the Professional Federation and Educational Support Personnel Association. Salary increases for the final year will be 1.75%.
- Insurance premium will be decreasing in every category for 2006-2007:

Health insurance for the Educational Support Personnel Association staff will drop 39%. The Professional Federation Staff elected to switch their coverage to the same BC/BS policy as the administrative/non-union salaried support staff resulting in reduced or eliminated co-pays.

Errors and omissions will decrease by 9.9% to \$12,918 annually.

Property/casualty/fleet insurance will decrease 1.4%.

Workers' compensation will decrease by 10.9% with the experience modification factor dropping from 1.85 to 1.67.

- Federal dollars for the Special Education grants are expected to remain stable as are State funds.

Wexford-Missaukee Intermediate School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Requests for Information

This report is designed to give an overview of the financial conditions of the Wexford-Missaukee Intermediate School District. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Superintendent's Office.

BASIC FINANCIAL STATEMENTS

Wexford-Missaukee Intermediate School District

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 11,779,231
Accounts receivable	3,830
Accrued interest receivable	8,384
Due from other governmental units	862,712
Inventories	37,174
	<hr/>
Total current assets	12,691,331
Noncurrent assets	
Capital assets, not being depreciated	76,640
Capital assets being depreciated, net	10,147,654
	<hr/>
Total noncurrent assets, net	10,224,294
	<hr/>
TOTAL ASSETS	22,915,625
LIABILITIES	
Current liabilities	
Accounts payable	98,187
Accrued payroll	687,895
Other accrued liabilities	287,724
Due to other governmental units	1,110
Deferred revenue	154,137
Current portion of accrued severance pay	260,845
	<hr/>
Total current liabilities	1,489,898
Noncurrent liabilities	
Noncurrent portion of accrued severance pay	86,949
	<hr/>
TOTAL LIABILITIES	1,576,847
	<hr/>
NET ASSETS	
Invested in capital assets	10,224,294
Unrestricted	11,114,484
	<hr/>
TOTAL NET ASSETS	\$ 21,338,778
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See accompanying notes to financial statements.

Wexford-Missaukee Intermediate School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 4,935,992	\$ 464,728	\$ 1,309,499	\$ -	\$ (3,161,765)
Supporting services	8,520,029	482,927	1,531,519	161,750	(6,343,833)
Community services	36,970	-	36,970	-	-0-
Payments to other districts	2,552,433	163,664	519,117	-	(1,869,652)
Unallocated depreciation	560,328	-	-	-	(560,328)
Total governmental activities	<u>\$ 16,605,752</u>	<u>\$ 1,111,319</u>	<u>\$ 3,397,105</u>	<u>\$ 161,750</u>	(11,935,578)
General revenues					
Property taxes					9,294,444
State school aid - unrestricted					2,699,356
Investment earnings					418,383
Miscellaneous					<u>66,602</u>
Total general revenues					<u>12,478,785</u>
Change in net assets					543,207
Net assets, beginning of year					<u>20,795,571</u>
Net assets, end of year					<u>\$ 21,338,778</u>

See accompanying notes to financial statements.

Wexford-Missaukee Intermediate School District

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Special Education	Vocational Education
ASSETS			
Cash and cash equivalents	\$ 2,160,455	\$ 6,066,511	\$ 2,691,399
Accounts receivable	386	-	3,444
Accrued interest receivable	1,482	6,712	190
Due from other governmental units	165,675	570,269	126,768
Inventories	-	-	37,174
TOTAL ASSETS	\$ 2,327,998	\$ 6,643,492	\$ 2,858,975
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 866	\$ 13,019	\$ 74,188
Accrued payroll	29,049	487,224	171,622
Other accrued liabilities	16,929	195,428	75,367
Due to other governmental units	678	432	-
Deferred revenue	100,829	53,308	-
TOTAL LIABILITIES	148,351	749,411	321,177
FUND BALANCES			
Reserved for			
Inventories	-	-	37,174
Unreserved			
Designated for capital projects	-	-	-
Undesignated, reported in			
General fund	2,179,647	-	-
Special revenue funds	-	5,894,081	2,500,624
TOTAL FUND BALANCES	2,179,647	5,894,081	2,537,798
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,327,998	\$ 6,643,492	\$ 2,858,975

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 860,866	\$ 11,779,231
-	3,830
-	8,384
-	862,712
-	37,174
<u>\$ 860,866</u>	<u>\$ 12,691,331</u>
\$ 10,114	\$ 98,187
-	687,895
-	287,724
-	1,110
-	154,137
10,114	1,229,053
-	37,174
850,752	850,752
-	2,179,647
-	8,394,705
<u>850,752</u>	<u>11,462,278</u>
<u>\$ 860,866</u>	<u>\$ 12,691,331</u>

Wexford-Missaukee Intermediate School District

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds **\$ 11,462,278**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 15,891,799	
Accumulated depreciation is	<u>(5,667,505)</u>	
		10,224,294

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued severance pay	<u>(347,794)</u>
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Net assets of governmental activities **\$ 21,338,778**

See accompanying notes to financial statements.

Wexford-Missaukee Intermediate School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Special Education	Vocational Education
REVENUES			
Local sources	\$ 714,986	\$ 5,207,807	\$ 4,470,356
State sources	934,836	1,791,048	326,622
Federal sources	30,572	3,003,078	594,295
OTHER FINANCING SOURCES			
Transfers from other funds	-	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	1,680,394	10,001,933	5,391,273
EXPENDITURES			
Current			
Instruction	-	2,595,675	2,454,135
Supporting services	1,494,017	5,261,576	1,752,974
Community services	-	36,970	-
Capital outlay	-	-	-
OTHER FINANCING USES			
Transfers to other funds	90,000	125,000	60,000
Payments to other districts	357,641	1,738,916	455,876
TOTAL EXPENDITURES AND OTHER FINANCING USES	1,941,658	9,758,137	4,722,985
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(261,264)	243,796	668,288
Fund balances, beginning of year	2,320,001	5,650,285	1,869,510
Prior period adjustments	120,910	-	-
Fund balances, end of year	\$ 2,179,647	\$ 5,894,081	\$ 2,537,798

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 20,868	\$ 10,414,017
54,491	3,106,997
-	3,627,945
275,000	275,000
350,359	17,423,959
-	5,049,810
11,462	8,520,029
-	36,970
157,305	157,305
-	275,000
-	2,552,433
168,767	16,591,547
181,592	832,412
790,070	10,629,866
(120,910)	-0-
\$ 850,752	\$ 11,462,278

Wexford-Missaukee Intermediate School District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 832,412

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 158,051
Depreciation expense	<u>(560,328)</u>

Excess of depreciation expense over capital outlay (402,277)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued severance pay	<u>113,072</u>
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Change in net assets of governmental activities \$ 543,207

See accompanying notes to financial statements.

Wexford-Missaukee Intermediate School District

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Agency Fund
ASSETS	
Cash	\$ 11,870
Investments	4,000
Due from individuals	<u>161</u>
TOTAL ASSETS	<u>\$ 16,031</u>
LIABILITIES	
Due to individuals and student groups	<u>\$ 16,031</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Wexford-Missaukee Intermediate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Wexford-Missaukee Intermediate School District (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the District as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. Separate columns are shown for major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

- b. Special Education Fund - The Special Education Fund is used to account for money or other resources provided from all sources including local extra voted millage, and Federal and State revenues received for the operation of special education programs and/or the distribution of funds to other local education agencies for operating special education programs.
- c. Vocational Education Fund - The Vocational Education Fund is used to account for money or other sources provided from all sources including local extra voted millage for the operation of vocational technical education programs. The Vocational Education fund also is used to account for Federal and State revenues received to operate job-training programs.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level for the District; however, they are maintained at the program level for control purposes.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Four (4) supplementary appropriations were made during the year with the last approved June 19, 2006.

5. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking accounts, pooled investment funds, imprest cash, and U.S. Government Securities with an original maturity of 90 days or less. Cash equivalents are recorded at cost, which approximates market value.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories consist of expendable supplies held for consumption or use in the various educational programs conducted by the District (i.e., Vocational Education). Reported inventories are equally offset by a fund balance reserve in the fund financial statements, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**8. Capital Assets - continued**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	40 - 50 years
Equipment and furniture	5 - 20 years
Vehicles	8 years

The District has no assets that would be classified as infrastructure assets.

9. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a liability in the district-wide financial statements.

10. Deferred Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred.

11. Long-Term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

12. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the collecting entity. The District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected. The District is permitted by the Constitution of the State of Michigan of 1963 to levy taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Special Education, Vocational Education, and Debt Service Fund expenditures. For the year ended June 30, 2006, the District levied the following mills per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund	.2730
Special Education Fund	3.1884
Vocational Education Fund	2.5000

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

14. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

15. Comparative Data

Comparative data for the prior year has not been presented in the financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Wexford-Missaukee Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

As of June 30, 2006, the carrying amounts of the District's deposits were \$6,251,515 and the bank balance was \$6,796,306, of which \$316,105 was covered by federal depository insurance. The balance of \$6,480,201 was uninsured and uncollateralized.

Investments

As of June 30, 2006, the carrying amounts and market values for each type of investment as reported in the cash, cash equivalents, and investments captions on the combined balance sheet are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uninsured and unregistered for which the securities are held by the District's agent in the District's name - MLAFP - Fixed Income portfolio	\$ 2,000,000	\$ 2,000,000	8 days
Uncategorized pooled investment funds MLAFP - Cash Management Funds	<u>3,543,586</u>	<u>3,543,586</u>	Less than 12 months
	<u>\$ 5,543,586</u>	<u>\$ 5,543,586</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investments in the MLAFP investments were rated AAAM by Standard and Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by designing its portfolio so that the investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Wexford-Missaukee Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

As of June 30, 2006, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$11,779,231	\$ 11,870	\$11,791,101
Investments	<u>-</u>	<u>4,000</u>	<u>4,000</u>
	<u>\$11,779,231</u>	<u>\$ 15,870</u>	<u>\$11,795,101</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 76,640	\$ -	\$ -	\$ 76,640
Capital assets being depreciated:				
Buildings and additions	12,987,115	26,554	-	13,013,669
Equipment and furniture	2,480,414	106,913	(19,474)	2,567,853
Vehicles	<u>230,147</u>	<u>24,584</u>	<u>(21,094)</u>	<u>233,637</u>
Total capital assets being depreciated	15,697,676	158,051	(40,568)	15,815,159
Less accumulated depreciation for:				
Buildings and additions	(3,334,306)	(290,801)	-	(3,625,107)
Equipment and furniture	(1,661,193)	(234,547)	9,578	(1,886,162)
Vehicles	<u>(152,246)</u>	<u>(23,766)</u>	<u>19,776</u>	<u>(156,236)</u>
Total accumulated depreciation	<u>(5,147,745)</u>	<u>(549,114)</u>	<u>29,354</u>	<u>(5,667,505)</u>
Total capital assets being depreciated, net	<u>10,549,931</u>	<u>(391,063)</u>	<u>(11,214)</u>	<u>10,147,654</u>
Governmental activities capital assets, net	<u>\$10,626,571</u>	<u>\$ (391,063)</u>	<u>\$ (11,214)</u>	<u>\$10,224,294</u>

The current year depreciation expense of \$549,114 has been adjusted by \$11,214 for the disposal of capital assets during the year in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense. Depreciation expense of \$560,328 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Wexford-Missaukee Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the District for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
Severance Pay	\$ 344,200	\$ 3,594	\$ -	\$ 347,794	\$ 260,845
Voluntary Severance Incentive	116,666	-	116,666	-0-	-
	<u>\$ 460,866</u>	<u>\$ 3,594</u>	<u>\$ 116,666</u>	<u>\$ 347,794</u>	<u>\$ 260,845</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Severance Pay - In recognition of services to the District, a severance payment is made to eligible employees according to their respective employment contracts.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who are currently not vested are calculated by multiplying total unused sick pay amounts at June 30, 2006 for all non-vested employees by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years. These amounts are generally funded by the fund in which individual employees are charged.

Voluntary Severance Incentive - The District provided a voluntary resignation program in which early retirement incentives were paid to participating employees that qualified for the program. The program was established in accordance with IRS rules which allow contributions to be made to the plan that are not subject to payroll taxes.

A summary of the calculated amounts of accrued severance pay, vacation pay and related payroll taxes as of June 30, 2006, which has been recorded in the district-wide financial statements, is as follows:

	Vested Employees	Non-vested Employees	Total
Severance pay	\$ 244,758	\$ 78,320	\$ 323,078
Payroll taxes	18,724	5,992	24,716
	<u>\$ 263,482</u>	<u>\$ 84,312</u>	<u>\$ 347,794</u>

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:

General Fund	\$ 90,000
Vocational Education Fund	60,000
Special Education Fund	<u>125,000</u>
	<u>\$ 275,000</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2004, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006 was \$6,553,539 of which \$4,907,927 was for members who have elected the MIP option; the District's total payroll was \$6,496,842.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990 are required to contribute based on a graduated rate; 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the preceding two years, is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2006	\$ 189,023	\$ 1,045,922	\$ 1,234,945
2005	166,813	864,332	1,031,145
2004	160,703	848,714	1,009,417

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2006	4.0%	16.0%
2005	4.0	14.4
2004	4.0	13.0

NOTE G: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, crime, data processing, valuable papers and records, outdoor sign, boiler, and employee dishonesty. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

The District also carries errors and omissions, underground storage tank district-wide, and in-land marine insurance for the building trade homes, which is handled by commercial insurance.

NOTE H: FLEXIBLE BENEFITS PLAN

In January, 1996, the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The Plan is administered by Wexford-Missaukee Intermediate School District.

NOTE I: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and non-plaintiff District an agreed upon amount for past underfunding of special education. Wexford-Missaukee Intermediate School District, a non-plaintiff District, was awarded \$1,625,243 in the settlement. The funds will be paid as follows:

1. One-half to be paid over the next ten (10) years beginning November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6).
2. One-half to be paid over the next fifteen (15) years beginning on or after November 15, 1998. The District elected to not bond for the balance of funding. The funds are to be used in accordance with provision of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Wexford-Missaukee Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE J: DURANT SINKING FUND

The District elected to receive one-half of the Special Education underfunding settlement in annual payments to be paid over the next fifteen (15) years beginning on November 15, 1998. Since the District did not have any voter-approved or other limited tax obligation debt the funds were required to be deposited into a sinking fund. The Durant Capital Projects Fund records capital project activities funded with these annual state payments and any other local funds generated with these funds (i.e., interest). For this fund, the District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

NOTE K: PRIOR PERIOD ADJUSTMENT

The following prior period adjustments were made during the current period, which was the result of closing the R.E.M.C. fund. These adjustments were reported as a charge to beginning net assets. The effect on operations and other affected balances for the current year and prior period are as follows:

	June 30,		
	<u>2006</u>	<u>2005</u>	<u>Description</u>
General Fund			
Cash	\$ -	\$ 120,910	To close out R.E.M.C. 2
Fund balance - beginning	120,910	-	South Fund and report as part of General Fund
R.E.M.C. 2 South			
Cash	-	(120,910)	To close out R.E.M.C. 2
Fund balance - beginning	(120,910)	-	South Fund and report as part of General Fund

REQUIRED SUPPLEMENTARY INFORMATION

Wexford-Missaukee Intermediate School District

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 493,144	\$ 709,227	\$ 714,986	\$ 5,759
State sources	876,683	931,073	934,836	3,763
Federal sources	34,085	33,324	30,572	(2,752)
OTHER FINANCING SOURCES				
Transfers from other funds	8,545	-	-	-0-
TOTAL REVENUES AND OTHER FINANCING SOURCES	1,412,457	1,673,624	1,680,394	6,770
EXPENDITURES				
Current				
Supporting services	1,430,400	1,526,005	1,494,017	31,988
OTHER FINANCING USES				
Transfers to other funds	25,000	90,000	90,000	-0-
Payments to other districts	64,470	357,641	357,641	-0-
TOTAL EXPENDITURES AND OTHER FINANCING USES	1,519,870	1,973,646	1,941,658	31,988
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(107,413)	(300,022)	(261,264)	38,758
Fund balance, beginning of year	2,320,001	2,320,001	2,320,001	-0-
Prior period adjustment	-	-	120,910	120,910
Fund balance, end of year	<u>\$ 2,212,588</u>	<u>\$ 2,019,979</u>	<u>\$ 2,179,647</u>	<u>\$ 159,668</u>

Wexford-Missaukee Intermediate School District

Special Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 4,917,058	\$ 5,030,101	\$ 5,207,807	\$ 177,706
State sources	1,718,772	1,706,751	1,791,048	84,297
Federal sources	2,532,252	2,323,535	3,003,078	679,543
TOTAL REVENUES	9,168,082	9,060,387	10,001,933	941,546
EXPENDITURES				
Current				
Instruction	2,623,382	2,629,429	2,595,675	33,754
Supporting services	5,491,760	5,325,852	5,261,576	64,276
Community services	100,000	38,477	36,970	1,507
TOTAL EXPENDITURES	8,215,142	7,993,758	7,894,221	99,537
OTHER FINANCING USES				
Transfers to other funds	250,000	125,000	125,000	-0-
Payments to other districts	1,713,038	1,775,000	1,738,916	36,084
TOTAL EXPENDITURES AND OTHER FINANCING USES	10,178,180	9,893,758	9,758,137	135,621
EXCESS OF REVENUES OVER OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(1,010,098)	(833,371)	243,796	1,077,167
Fund balance, beginning of year	5,650,285	5,650,285	5,650,285	-0-
Fund balance, end of year	<u>\$ 4,640,187</u>	<u>\$ 4,816,914</u>	<u>\$ 5,894,081</u>	<u>\$ 1,077,167</u>

Wexford-Missaukee Intermediate School District

Vocational Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 4,384,006	\$ 4,347,602	\$ 4,470,356	\$ 122,754
State sources	335,980	320,403	326,622	6,219
Federal sources	592,800	594,295	594,295	-0-
TOTAL REVENUES	5,312,786	5,262,300	5,391,273	128,973
EXPENDITURES				
Current				
Instruction	2,650,439	2,543,609	2,454,135	89,474
Supporting services	1,764,555	1,786,355	1,752,974	33,381
TOTAL EXPENDITURES	4,414,994	4,329,964	4,207,109	122,855
OTHER FINANCING USES				
Transfers to other funds	60,000	60,000	60,000	-0-
Payments to other districts	455,876	455,876	455,876	-0-
TOTAL EXPENDITURES AND OTHER FINANCING USES	4,930,870	4,845,840	4,722,985	122,855
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	381,916	416,460	668,288	251,828
Fund balance, beginning of year	1,869,510	1,869,510	1,869,510	-0-
Fund balance, end of year	<u>\$ 2,251,426</u>	<u>\$ 2,285,970</u>	<u>\$ 2,537,798</u>	<u>\$ 251,828</u>

OTHER SUPPLEMENTARY INFORMATION

Wexford-Missaukee Intermediate School District

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue Fund	Capital	
	Cooperative Education Fund		
	R.E.M.C. 2 South	General Capital Projects	Special Education Special Projects
ASSETS			
Cash and cash equivalents	\$ -0-	\$ 376,953	\$ 382,249
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
FUND BALANCES			
Unreserved			
Designated for capital projects	-	376,953	382,249
TOTAL LIABILITIES AND FUND BALANCES	\$ -0-	\$ 376,953	\$ 382,249

Projects		
Vocational Education Capital Projects	Durant Capital Projects	Total
<u>\$ 30,849</u>	<u>\$ 70,815</u>	<u>\$ 860,866</u>
\$ 10,114	\$ -	\$ 10,114
<u>20,735</u>	<u>70,815</u>	<u>850,752</u>
<u>\$ 30,849</u>	<u>\$ 70,815</u>	<u>\$ 860,866</u>

Wexford-Missaukee Intermediate School District

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Special Revenue Fund Cooperative Education Fund	Capital	
	R.E.M.C. 2 South	General Capital Projects	Special Education Capital Projects
REVENUES			
Local sources	\$ -	\$ 8,390	\$ 12,241
State sources	-	-	-
OTHER FINANCING SOURCES			
Transfers from other funds	-	90,000	125,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	-0-	98,390	137,241
EXPENDITURES			
Current			
Supporting services	-	-	-
Capital outlay	-	5,556	64,569
TOTAL EXPENDITURES	-0-	5,556	64,569
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	-0-	92,834	72,672
Fund balances, beginning of year	120,910	284,119	309,577
Prior period adjustment	(120,910)	-	-
Fund balances, end of year	\$ -0-	\$ 376,953	\$ 382,249

Projects		
Vocational Education Capital Projects	Durant Capital Projects	Total
\$ 237	\$ -	\$ 20,868
-	54,491	54,491
60,000	-	275,000
60,237	54,491	350,359
7,255	4,207	11,462
56,194	30,986	157,305
63,449	35,193	168,767
(3,212)	19,298	181,592
23,947	51,517	790,070
-	-	(120,910)
<u>\$ 20,735</u>	<u>\$ 70,815</u>	<u>\$ 850,752</u>

Principals

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Michael T. Gaffney, CPA
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Aaron M. Stevens, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Wexford-Missaukee Intermediate School District
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wexford-Missaukee Intermediate School District as of and for the year ended June 30, 2006, which collectively comprise Wexford-Missaukee Intermediate School District's basic financial statements, and have issued our report thereon dated July 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wexford-Missaukee Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the administration and Board of Education of Wexford-Missaukee Intermediate School District, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.

Wexford-Missaukee Intermediate School District

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2006

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Principals

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
of Wexford-Missaukee Intermediate School District
Cadillac, Michigan

Compliance

We have audited the compliance of Wexford-Missaukee Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Wexford-Missaukee Intermediate School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Wexford-Missaukee Intermediate School District's management. Our responsibility is to express an opinion on Wexford-Missaukee Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Wexford-Missaukee Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Wexford-Missaukee Intermediate School District's compliance with those requirements.

In our opinion, Wexford-Missaukee Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ending June 30, 2006.

Internal Control Over Compliance

The management of Wexford-Missaukee Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Wexford-Missaukee Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wexford-Missaukee Intermediate School District as of and for the year ended June 30, 2006, and have issued our report thereon dated July 19, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Wexford-Missaukee Intermediate School District's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and management of Wexford-Missaukee Intermediate School District, the Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 19, 2006

Wexford-Missaukee Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Restated Prior Years' Expenditures
<u>GENERAL FUND</u>				
U.S. Department of Education Passed through Berrien County Intermediate School District and Ferris State University	84.318	6-24663	\$ 30,378	\$ -
U.S. Department of Education Passed Through State Department of Education Improving Teacher Quality 2005-06 Regular	84.367	0605200506	390	-
Title V 2005-06 Regular	84.298	0602500506	2,556	-
TOTAL GENERAL FUND EXPENDITURES OF FEDERAL AWARDS			33,324	-0-
<u>SPECIAL EDUCATION FUND</u>				
U.S. Department of Education Passed through State Department of Education Special Education 94-142 ^{(c)(d)} Flow Through 2005-07 Regular 2004-06 Regular State Initiated 2005-06 Department 2005-06 Competitive	84.027	0604500506 0504500405 060490TS 060480EOSD	1,861,612 1,788,921 60,000 50,000	- 969,307 - -
			3,760,533	969,307
Special Education 94-142 Preschool Incentive ^{(c)(d)} 2005-06 Regular	84.173	0604600506	61,980	-
Infant/Toddler Early Intervention 2005-07 Regular 2004-06 Regular	84.181	061340190 051340190	99,747 99,280	- 75,584
			199,027	75,584

<u>Balance July 1, 2005</u>	<u>Cash Receipts/ In-Kind Payments</u>	<u>Expenditures</u>	<u>Balance June 30, 2006</u>
<u>Accrued or (Deferred) Revenue</u>			<u>Accrued or (Deferred) Revenue</u>
\$ -	\$ 15,525	\$ 27,626	\$ 12,101
-	390	390	-0-
-	2,556	2,556	-0-
-0-	18,471	30,572	12,101
-	1,239,619	1,501,434	261,815
200,634	1,020,248	819,614	-0-
-	60,000	60,000	-0-
-	50,000	50,000	-0-
200,634	2,369,867	2,431,048	261,815
-	61,980	61,980	-0-
-	44,477	60,893	16,416
20,334	44,030	23,696	-0-
20,334	88,507	84,589	16,416

Wexford-Missaukee Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Restated Prior Years' Expenditures
<u>SPECIAL EDUCATION FUND - CONTINUED</u>				
U.S. Department of Health and Human Services				
Passed through State				
Department of Human Services				
Medicaid Assistance Program				
Title XI	93.778			
School Based Services				
(Transportation) ^(b)		2981900		
2005-06			\$ 3,692	\$ -
TOTAL SPECIAL EDUCATION FUND				
EXPENDITURES OF FEDERAL AWARDS			4,025,232	1,044,891
<u>VOCATIONAL EDUCATION FUND</u>				
U.S. Department of Labor				
Passed through State Department				
of Education and Michigan Department				
of Career Development				
Vocational Education	84.048			
2005-06 Perkins III ^(c)		0635206012-5	562,670	-
Traverse Bay Area Intermediate				
School District				
Vocational Education	84.243			
2004-05 Tech-Prep Education		TP-4748-C	31,625	-
TOTAL VOCATIONAL EDUCATION FUND				
EXPENDITURES OF FEDERAL AWARDS			594,295	-0-
TOTAL FEDERAL AWARDS			\$ 4,652,851	\$ 1,044,891

Balance July 1, 2005	Cash Receipts/ In-Kind Payments	Expenditures	Balance June 30, 2006
Accrued or (Deferred) Revenue			Accrued or (Deferred) Revenue
\$ -	\$ 3,692	\$ 3,692	\$ -0-
220,968	2,524,046	2,581,309	278,231
-	562,670	562,670	-0-
-	30,130	31,625	1,495
-0-	592,800	594,295	1,495
<u>\$ 220,968</u>	<u>\$ 3,135,317</u>	<u>\$ 3,206,176</u>	<u>\$ 291,827</u>
	(e)	(a)	

Wexford-Missaukee Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Wexford-Missaukee Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (e) represent explanations that cross reference to amounts and headings on the Schedule of Expenditures of Federal Awards.

- (a) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports except as noted below. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes program tested as "major program".
- (d) Denotes programs required to be clustered by the United States Department of Education.
- (e) The amounts reported in this schedule as cash received are in agreement with the amounts in the Grants Section Auditor's Report.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the June 30, 2006 Financial Statements to the expenditures of the District administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Vocational Education Fund</u>
Revenues from Federal sources per financial statements	\$ 30,572	\$ 3,003,078	\$ 594,295
<u>Less:</u> Medical services portion of the Medicaid School Based Services program which is not subject to the Single Audit Act	-	(421,769)	-
Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 30,572</u>	<u>\$ 2,581,309</u>	<u>\$ 594,295</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
of Wexford-Missaukee Intermediate School District
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Wexford-Missaukee Intermediate School District as of and for the year ended June 30, 2006, which collectively comprise the Wexford-Missaukee Intermediate School District's basic financial statements and have issued our report thereon dated July 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wexford-Missaukee Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education and management of Wexford-Missaukee Intermediate School District, the Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 19, 2006

Wexford-Missaukee Intermediate School District

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We disclosed one (1) finding related to internal controls or compliance related to the major programs tested.

The major programs tested to cover 25 percent of the total Federal expenditures were the Special Education 94-142 State Initiated (CFDA 84.027) program, the Special Education 94-142 Preschool Incentive (CFDA 84.173) programs, and the Vocational Education Perkins III (CFDA 84.048). CFDA 84.027 and 84.173 are considered a cluster by the United States Department of Education. Total Federal expenditures for the year ended June 30, 2006 for the major programs were \$3,055,698, which is approximately 95 percent of total Federal expenditures. Based on the criteria of OMB Circular A-133, Wexford-Missaukee Intermediate School District qualified as a low-risk auditee for the year ended June 30, 2006.

The District had two (2) Type A programs, the United States Department of Education cluster Special Education 94-142 Flow Through and Special Education 94-142 Preschool Incentive Programs; \$2,493,028 (CFDA 84.027 and 84.173A) and Perkins III; \$562,670 (CFDA 84.048). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

06-1 SUBRECIPIENT MONITORING

Perkins III Passed through the Michigan Department of Education - CFDA 84.048; Grant No. 0635206012-5; Grant period FY 2005-06.

During our review of the process related to subrecipient monitoring for the above noted grant it was determined that the District did not provide adequate follow-up monitoring at year-end (i.e., getting subrecipient audit reports, etc.). It was noted that one of the subrecipients had not included the passed through Federal funds in their Schedule of Expenditures of Federal Awards for the most recent audited period. The District had taken no action with respect to this condition as of the date of audit. This finding did not appear to result in any questioned costs.

We recommend the District implement formal written procedures related to subrecipient monitoring and then periodically perform the established monitoring procedures. These written procedures should include obtaining subrecipient audit reports and review of same to determine that passed through funds are reported properly and that there are no findings with regard to these funds. If discrepancies or findings are noted the District should follow up in a timely manner.

Wexford-Missaukee Intermediate School District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

Wexford-Missaukee Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2006

<u>Program Title/ Subrecipient (School District)</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Years' Expenditures</u>
<u>Vocational Education Fund</u>				
Perkins III				
2005-06 (043520401205)	84.048			
Charlevoix-Emmet ISD		0635206012-5	\$ 120,491	\$ -
Manistee ISD		0635206012-5	40,424	-
Traverse Bay ISD		0635206012-5	294,961	-
			<u>\$ 455,876</u>	<u>\$ -0-</u>
TOTAL VOCATIONAL EDUCATION FUND				

<u>Balance</u> <u>July 1, 2005</u> <u>Due From/(To)</u> <u>Subrecipient</u>	<u>Cash</u> <u>Transferred</u> <u>to</u> <u>Subrecipient</u>	<u>Subrecipient</u> <u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Due From/(To)</u> <u>Subrecipient</u>
\$ -	\$ 120,491	\$ 120,491	\$ -0-
-	40,424	40,424	-0-
-	294,961	294,961	-0-
<u>\$ -0-</u>	<u>\$ 455,876</u>	<u>\$ 455,876</u>	<u>\$ -0-</u>

***Wexford-Missaukee
Intermediate School District***

Board Members

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Harold Kibbe
Garold Koester
Chris McCrimmon
Daryl Morr
Dean Smallegan
William Sparks

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Scott Crosby
Superintendent

Karen Mlcek
Director General Education

Michael Blanchard
Director Vocational Education

John Bretschneider
Director Special Education

Thomas Armstrong
Director of Business Services

September 18, 2006

To Whom It May Concern:

Please consider this letter our corrective action plan related to the finding in the Wexford – Missaukee ISD Single Audit (reference # 06-1) for the year ended June 30, 2006.

In the future ISD staff will notify all sub-recipients of federal funds that the funds are subject to the single audit act. Staff will also notify sub-recipients at the end of each funding year of the amount of federal funds passed through. Lastly, we will request a copy of the sub-recipient's single audit to verify that the funds were reported correctly and to further discover any findings related to the funds and the corrective action to be taken.

I believe that this corrective action will ensure that pass through federal funds are reported correctly in the future. If you have any questions or require further information please contact me.

Sincerely,



Thomas L. Armstrong, CPA
Director of Business Services

Cc: Mike Blanchard, Director of Vocational Education